

What Kathy Lee Gifford Needs to Know

by

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In the past two years, there has been a lot of bad press on the part of clothing manufacturers with factories overseas about the use of child labor and unhealthy working conditions. Kathy Lee Gifford, a television personality with her own line of clothing, was particularly upset at the bad publicity she received when it was discovered that many clothes with her name in the label were made in such factories. What Kathy Lee needs to know is that this need not have happened. Had she worked with a development organization to provide better working conditions she could have the clothes and received good publicity for creating jobs.

What Kathy Lee, and others doing business overseas need to know is that here is a new paradigm for businesses to work with development organizations, that I believe will be the dominant model for development in the next five to ten years. It involves a radically new way of thinking about solutions to the problems of the poor. It is a model that I call Corporate Community Investment and it *involves partnerships between businesses, and nonprofit organizations that moves business beyond philanthropy to joint business ventures with non-governmental organizations (NGOs) that are good for business while also accomplishing social objectives*, a win-win situation. I will explain the model, give you some examples of what I am talking about, tell you some of the early lessons learned, and then discuss where I think we need to go from here.

As we know, the international development community wants to assist poor people so that they will have money for schooling, health care, and other markers of a quality life. As sincere as those intentions are, there is no organization in the world that more sincerely wants people to have some spare change in their pockets than Coca Cola. It is in the interest of U.S. and European businesses to lift those poor people out of poverty so that they can buy cokes, sneakers, walkmen, jeans, and the other accouterments of development.

The market for the products of U.S. businesses is called mature which is a nice way of saying we already have more than we need. U.S. households already have cars, t.v.s, microwaves, sneakers, toys, gadgets and gizmos. We simply cannot buy much more stuff. The people who will have to buy products to keep the U.S. economy moving are overseas. Yet U.S. businesses do not have experience in working with the poor overseas. They use the marketing and sales strategies that work here and reach a small elite. Eighty-percent of the world's population is poor. Fifty percent of the people in the world have never talked on a telephone.

Who does know the poor, their problems, the cultural and political constraints? Who

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does have contacts with millions of small farmers and workers eager for employment? It is the one million non-governmental organizations that are already out there and have close relations with the poor, their families, local leaders, and local conditions. The partnership between business and nongovernmental organizations is a natural one that can benefit both.

Over the past few years, as a consultant, I have frequently been asked to assist organizations in thinking about how they can be more efficient. Deep cuts in the budget at USAID has pushed development organizations to tighten their belts and look for ways to do more with less.

The new way of thinking is treated as a side-line to more conventional grants from USAID and foundations though a good number of business-NGO partnerships already exist. NGOs do not like to talk about them for fear others will steal their partners and businesses at the headquarters level are not always aware of the partnerships underway in other countries. There has been very little documentation of what works and what does not though there is an accumulating body of case studies on the topic. I have developed models for where I think both NGOs and corporations will be going in the next few years as partnerships replace grants as the dominate development strategy.

The idea becomes clearer by citing a few examples:

- The first story is about Star Margarine in Philippines. People in the Philippines, as in many developing countries, had significant problems with Vitamin A shortages leading to night blindness and other problems. In 1990, several NGOs including Helen Keller International and the Nutrition Center of Philippines approached Proctor and Gamble about making fortified margarine. A field test showed that people wanted to buy the margarine but the 100 and 200 gram containers were too expensive poor people so that it was marketed in smaller, 15 gram, size. Studies of preschool children showed a significant increase in Vitamin A levels. For the first time in history, the Philippine Department of Health issued a seal of approval which is stamped on each container. In 1994 Star Margarine went to full distribution . A collaborative marketing effort between Proctor and Gamble, NGOs, and the government lead to a significant increase in the of volume of sales and profits in just one year. There has also been increased Vitamin A levels in the general population. Proctor and Gamble got into a vast new market and people now get their Vitamin A.
- Next, a story about how charity can lead to new business. In Taiwan, Citibank employees formed a small chamber orchestra that gave performances and donated the proceeds to an association for disabled people. Conversations between the two organizations led to the development of a mortgage program that allows disabled people to buy their own apartments while Citibank got new customers.

- American Express works closely with Share our Strength, an innovative program to provide food to hungry people. Because they charge a higher service charge than other credit cards, AmEx had some difficulty getting restaurants to accept its charge cards. In 1981, they pioneered in the idea of cause related marketing that links a product with a worthy cause, SOS, to sponsor Taste of the Nation festivals and pay for overhead at SOS, AmEx started its Charge Against Hunger campaign by which AmEx donates three cents of every transaction made by a cardholder in November and December. This raises over \$5 million per year for SOS programs. The AmEx partnership with SOS has strengthened and deepened with AmEx employees encouraged to get involved in local hunger campaigns. This has enabled SOS to dramatically expand its programs and it has also increased AmEx revenues. AmEx employees feel a sense of pride and good-will towards their company. Cause related marketing is a major marketing strategy now for such companies as The Body Shop, Ben and Jerry's Ice Cream and Newman's Own salad dressing and spaghetti sauce.
- In a small town in Guatemala, the Phillips Van Heusen clothing company has a factory. When senior staff from the company visited in 1993 they were dismayed that one third of all children were not in school and that two-thirds never went past the fifth grade. A member of the PVH board is also founder of the American Jewish World Service which offered to help develop the schools in the town. Initially, the idea was a few infrastructural improvements and a few new teachers but they idea was so compelling and that they added 12 extra classrooms in seven schools, and created a coordinated program for developing didactic materials, evening classes for factory workers, and programs of health and nutrition. This partnership between the community, AJWS and PVH company, has greatly improved conditions in the community while workers are healthier, better educated, happier and more productive.
- Citibank and Accion, a nonprofit microenterprise organization, have been partners for over two decades. Initially, Citibank was a donor but over time, their partnership has evolved into a business relationships. Citibank capitalizes \$330 million in loan funds that Accion then lends to micro-entrepreneurs. With Accion's leeway to innovate and trust from the poor, has lead to a payback rate of 98 percent, much more than Citibank could have achieved on its own. An estimated 350,000 jobs have been created in this way.

There are many more stories like this, each unique in some ways but having some common threads. What do these stories tell us? They tell us that there is a growing trend of partnerships between the private sector and the nonprofit sector to achieve mutual ends. The following two matrices that show the evolution of corporate community investment and the change that will be required of NGO both here and overseas.

These two matrices show the trends. First, Evolving Corporate Relations with

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Communities. This matrix shows the direction in which some corporations are moving. They will work on community investment projects with NGO partners not because its the right thing to do but because it increases profits, expands markets, or minimizes risk. They will work to build the efficiency and productivity of their NGO partners.

Evolving Corporate Relations With Communities

	FIRST GENERATION	SECOND GENERATION	THIRD GENERATION
<i>Purpose</i>	Philanthropy	Strategic Philanthropy	Community Investment
<i>Motive</i>	Morality	Long-term self-interest	Direct self-interest
<i>Strategy</i>	Ad hoc	Systematic	Strategic
<i>Staff</i>	Administrator	Manager	Entrepreneurial/consultants
<i>Structure</i>	Detached from business activities	Part of line structure	Integrated as part of business functions
<i>Initiative</i>	Passive	Responsive to requests in target areas	Active - initiatives programs
<i>Contribution</i>	Cash	Cash and donations of goods	Business resources, skills & cash
<i>Sustainability</i>	One time assistance	Assistance in specific sectors	Capacity building of NGOs

Next, The Evolution of the Development Community. Over the past 20 years, NGOs have moved from welfare to development. They must now take the next big step to community investment with business partners. This means actively working with communities and businesses to carry out activities that benefit both. It means using the technical resources of business to train workers, create jobs, and provide health or educational services through employers.

The Evolution of Development Organizations

	FIRST GENERATION	SECOND GENERATION	THIRD GENERATION
<i>Purpose</i>	Welfare	Development	Community Investment
<i>Motive</i>	Charity	Human resource development	Integration of poor into national economy

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<i>Strategy</i>	Ad hoc	Systematic	Strategic
<i>Staff</i>	Administrator	Manager	Negotiators between business & community
<i>Structure</i>	Affiliated with churches or independent	First-Third World partnerships, grant management	Non-profit but managed using businesses standards of efficiency
<i>Initiative</i>	Actively identify social problems	Responsive to requests in target areas, carry out donor objectives.	Active - works with community and business to develop activities that benefit both.
<i>Contribution</i>	Goods & financial assistance for poor, often from individual contributors	Grants from donors for specific activities with some cost recovery and fee for service	Technical resources, community contacts and mediation with businesses
<i>Sustainability</i>	One time assistance	PVO-NGO-donor partnerships	Facilitate NGO-community-business partnerships

Models of partnership

While it is premature to have fully developed models of business partnerships with nonprofit organizations, some have already emerged. Research is needed to document these and other models and identify the strengths and weaknesses of each.

Model 1: Business creates a non-profit organization. This is the model that Land O' Lakes has used. Land O' Lakes is a dairy cooperative in the north central part of the U.S. Its members are socially conscious and wanted to return some of their profits to a worthwhile cause. They created a nonprofit branch that works to create cooperatives and other community organizations world-wide. Initially the nonprofit organization was not viewed as a business related activity but it is now considered important to Land O' Lakes overall success to have healthy productive people in the places where they sell their products. Because it has given Land O' Lakes such a positive reputation world-wide, in many cases, activities supported by the nonprofit have led to new business opportunities. People trained in nonprofit activities have been hired by the business when it expands into that country. Shell Oil Company and Monsanto are forming their own non-profit community development branches.

The Interaction Institute is a management consulting firm with offices in Dallas, Boston, and San Francisco. Specializing in organizational change and training they have pioneered in the field of collaborative planning and management. They commit 10 percent of their annual profits and five percent of their employees time to the Interaction Institute for Social Change which provides the same planning and management skills to non-profit organizations. In this way they transfer the skills of business leaders and the idea of collaboration with nonprofits as a mechanism for building the community through direct partnerships.

Model 2: Volunteerism: A number of organizations promote volunteerism as a charitable activity and many businesses encourage their employees to contribute their skills for neighborhood activities. What has not been documented is the business advantage of volunteerism. Anecdotal information suggests that some kinds of volunteer activities can be very good for business. Volunteers in Overseas Cooperative Assistance (VOCA), Volunteers in Technical Assistance (VITA), the Citizens Democracy Corp (CDC) all are mechanisms for U.S. business people to work overseas for a short period of time. During these visits they assist a local organization or business with a problem but they also make contacts and gather information on new markets and local business issues. Project Sustain sends senior officials from the food manufacturing and processing industry overseas to work on technical problems but many return with new business ideas and contacts. These programs may be especially useful for small to mid-sized businesses that cannot afford to send representatives overseas to scout out new markets and make business contacts.

Model 3: Grants: Corporations have a long history of grants to development organizations. This is the old philanthropy model that is used by many U.S. businesses interested in being more socially responsible. Many of these grants would be considered welfare projects in that they are one-shot donations. Others are more development oriented and try to create a sustained program of self-help but the corporation is not involved in the implementation of the project. Coca Cola has given grants to Project Hope to build schools in China. Eli Lilly donates insulin to a partnership between hospitals in La Crosse, Wisconsin and Dubna, Russia for a community based diabetes management program. Merck donates Mectizan to prevent river blindness. Corporations are much more strategic in their grant making now and see them as an important business strategy and entree into emerging markets.

Model 4: Business partnerships: Some relationships are full partnerships. Citibank capitalizes loan funds for members of the National Alliance of Community Development Loan Funds but the two organizations are in regular contact about the specific loan fund performance and strategy. Citibank has a similar relationship with Accion, an organization that carries out small-business development programs in Latin America.

American Express worked closely with local NGOs in the Dominican Republic as they jointly trained unemployed youth to be tour guides. With courteous and knowledgeable tour guides, tourism went up. This stimulated business in the hotel and restaurant

industry. Many new jobs were created and the use of AMEX cards went up.

In Mexico, Coca Cola had difficulty distributing its products in crowded urban slums. They hired youth to distribute the product on specially made carts which were sold to the distributors and paid for in small monthly payments. Unemployed youth found jobs and Coke got its product into difficult to reach markets. When someone joked that it would be nice if it were as easy to for mothers to get Oral Rehydration Solution packets as it was to get a Coke, NGOs approached Coke and used the same venders to distribute ORS packets to shopkeepers. Now it really is as easy to get ORS as to get a Coke.

Model 5: Subcontracts: Some manufacturing companies subcontract for home based activities such as cutting fabric for clothing or leather for shoes. In India, the Myrada project works with wholesalers of incense, grass mats, raw silk, chapaties, spice packets, student note pad assembly and school uniform sewing. Many NGOs around the world contract with larger businesses for the production of raw materials or semi-manufactured goods that are sold to wholesales and distributed through retailers. School uniforms and wooden furniture for government offices are popular sub-contracts to NGOs. Cooperatives such as the Self-Employed Women's Association in India buy goods from their members and sell them to retailers directly with profits going into health care, education, scholarships, and other services for members.

Model 5: The NGO as Entrepreneur: Increasingly NGOs are thinking of themselves as businesses and have business activities that partially or wholly subsidize their community work. TechnoServe has always charged its clients, struggling agribusiness's overseas, a fee for their service. Microcredit programs world-wide are now designed to be financially self-sustaining even though they must charge very high interest rates. Pact manages health insurance plans for other nonprofits and has a publications unit that brings in income. Save the Children sells crafts made in the communities where they work and sells greetings cards with themes relating to children.

In Quito, the *Fundacion Mariana de Jesus* is a construction company that is noted for its very high quality work. The profits from constructing homes for the wealthy go to subsidize inexpensive housing for the poor. The company also trains people in the building trades. The Sustainable Development Services Project of USAID is working to help NGOs become more entrepreneurial through income-generation, cost recovery, and business ventures.

Lessons learned:

- Government can not expect the private sector to take up all the things it used to do. There are business solutions to some problems such as job creation, and local health, education, and natural resource problems. But there will always be some problems that require a government solution including national programs of formal

education, family planning, and vaccinations. As this is a new strategy, we don't know yet what its limits are. The private sector can do much more but it can not do it all.

- Partnerships require a sincere commitment on the part of the business and the NGO to work through their differences and to respect the fact that each is coming to the partnership for different reasons. Through discussion and creative thinking, NGOs can keep their idealism or ethical standards while businesses can keep an eye on the bottom-line.
- Partnerships have to proceed on a daily or weekly basis. No more will NGOs be able to take the money and do the work. They will have to be full partners in the implementation of projects. Experts from business will provide technical expertise in project management and training that is badly needed by NGOs. They will be program partners, not just financial partners.
- Success breeds success. Under the old donor-grantee model, there was a limited amount of money and NGOs were forced to carry out the objectives of the donor and compete for scarce resources. Under the new model, the more success we can document, the more businesses will want to work with NGOs and the resources will be virtually unlimited. Partnerships can lead to creative new solutions to problems not possible under the current system.
- Partnerships are between institutions, not individuals. The people directly involved in the project have to continually reach out to others in the business or NGO to assure that they know about and are involved in the project in as many ways as possible.
- The partnerships will happen in the field. While people at corporate headquarters and in U.S. NGO offices can embrace the concept, the actual partnerships will happen in the field with the practitioners and business managers.
- NGO staff will need different skills than they have in the past. They will have to be much more knowledgeable about business concepts and tools than most are today.
- No two partnerships are the same. Each will be unique and adapted to the particular needs and resources of the business, community, and NGO.
- The model will always be essentially business driven, if the activity is not good business, there will be no resources for community activities.

Making this model work will require changes in the way of thinking of donors, NGOs and businesses.

Changes in donor thinking

USAID and other donors will have to re-think how they do business. They must expand their

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idea of partnerships to include nonprofits and businesses. We need their help in documenting the existing partnerships, both successful and unsuccessful, and in drawing out the lessons learned, and finding creative ways to promote the new way of thinking. They may have to ask for business plans rather than proposals. They must find ways to shorten the turn-around time on grants to enable NGOs to move quickly on business opportunities.

NGO changes

It will require a great change for NGOs to learn to think about business solutions to problems rather than assuming all problems are resolved through grants. Being freed from the policy directives of USAID and other donors, they can work on a much broader range of problems than just USAID's current policy areas. There are many, many social problems out there that need our attention including mental health, care for the elderly, care for AIDS orphans, and the very pressing issue of employment for youth which by the year 2010 will make up 50 percent of the world's population. By working with businesses, NGOs will be able to test their creativity and think in entirely new ways about problems and their solutions. They can throw their Logical Frameworks out the window and buy some business plan software. They may have to move from community based service delivery to workplace based programs of child care, health, education, and family planning.

NGOs will have to learn a new culture, that of business. It is a culture with a different language, different values, and ways of getting things done. Many individuals in the nonprofit community harbor resentment and bad feelings about business that must be put away.

Business changes

Businesses interested in expanding markets into poor communities or hiring workers should look to NGOs to work with them to avoid the bad publicity many textile and sneaker manufacturers are having now. The Nestle problems some years back with infant formula could have been avoided had they worked with a health organization that could have helped find ways for mothers to mix the formula with clean water. Infant formula is important if women are going to work outside the home.

Business needs to get to know more about the NGO community and educate about ways they can work together. There are over 1 million NGOs out there, many with very experienced staff, excellent training skills, long term relationships with local officials and community leaders. They have staff who know the communities, speak the local languages, and can tell businesses what products will sell, what size and packaging would be appropriate and they are willing to work with businesses on activities that can enhance the lives of the less fortunate. Businesses will need to learn to distinguish the legitimate NGOs from the political and unsavory ones. Businesses will also have to learn to be true partners with organizations that are smaller and respect the values and motives of the NGOs.

There is a lot to be done, but some suggested activities would include the following:

Analytic case studies that go beyond public relations that allow us to develop models of partnerships and lessons learned from both successes and failures.

Training and experiential visits for CEOs and NGOs to successful projects

Policy changes at national levels that encourage business-NGO partnerships with tax or other incentives.

The establishment of Business Link Centers to promote partnerships, train businesses and NGOs to work together and offer "marriage" counseling services. There is a major push on to give more credit for small businesses but those millions of businesses will have limited markets for their products unless they are linked to the regional and international markets. A strategy for working with small and medium-sized businesses as well as large multi-national corporations.

Expansion of informational programs such as the Development Education program to inform businesses about the NGO community and issues in international development. Businesses can expand markets, minimize risk and assist the poor if they have NGO partners.

Work with corporate philanthropy offices to support activities that help them move to the third generation including training for corporate community investment officers in the basics of community development and strategic community investments.

Assistance from USAID in linking U.S. private development organizations with other U.S. government agencies such as Commerce and Agriculture.

Conclusions

In conclusion, Kathy Lee Gifford, and all businesses working overseas should know that they can reduce the risk of working overseas by working with nonprofit partners who know the community, who can provide community development services, and who can work with them to generate good publicity for their work rather than bad publicity. And, this can be done while increasing the profitability of the business, increasing worker productivity, and creating new customers for their products.

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